

ISSUES

Cryptos Aren't Trades – They're Investments

By Luke Lango and Charlie Shrem August 13, 2021

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About two weeks ago, one of our analysts was asked a very simple question by a big-time Wall Street veteran.

It's likely a question you and pretty much every other Bitcoin bull has been asked before.

It went something like this...

How can you view Bitcoin as a long-term investment, when it is arguably the most volatile asset in the world?

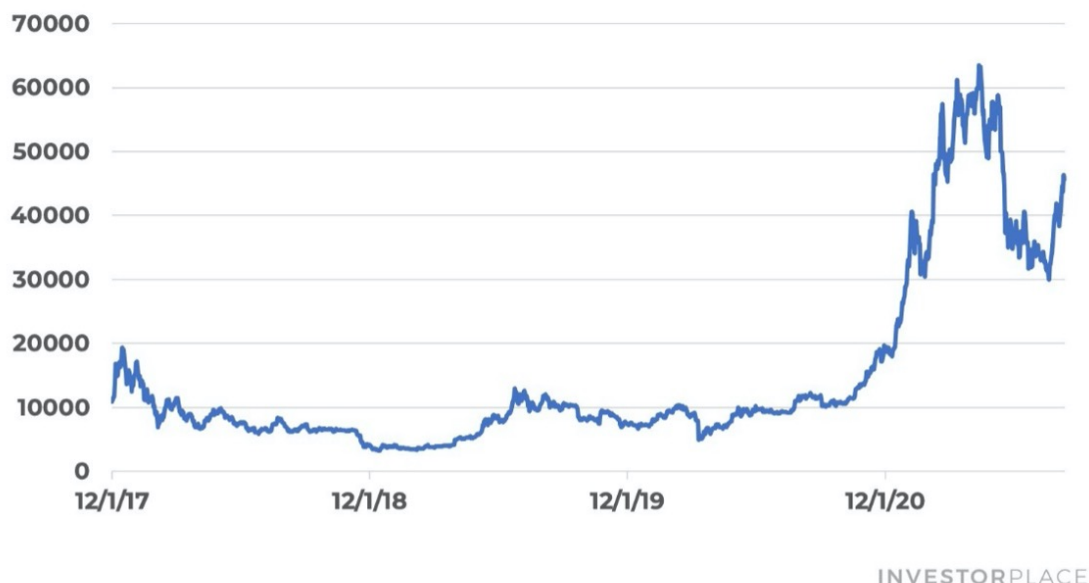
His response was simple: **Because the buy-and-hold strategy with Bitcoin works!**

Let's say you bought Bitcoin at its absolute peak in 2013. Had you held through the subsequent 2014 plunge, 2017 surge, 2018 collapse, 2020 boom, and 2021 bust, you'd be up on that investment by approximately 17,000%.

Over that same timeframe, had you just bought and held an S&P 500 index fund, you'd be up about 150%.

Now, let's say you bought Bitcoin at its absolute peak in 2017. Had you held through the 2018 crash and 2020-2021 boom-and-bust cycle, you'd be up on that investment by approximately 125%.

Bitcoin Price (BTC)



Over that same timeframe, the S&P 500 has risen just 66%.

In other words, even if you had the world's worst timing – which, by definition, you probably do not – **the buy-and-hold strategy on Bitcoin would've scored you enormous returns over the past decade**, much better than the returns you would've seen with the buy-and-hold strategy on a boring old index fund.

And we're not "cherry picking" data here.

Over the past approximately 11 years – so call it roughly 4,015 days – there have been only about 100 days over that period that, if you bought Bitcoin at the close, you'd be underwater today at current prices.

Just 100 days... out of 4,015 days...

That means the buy-and-hold strategy on Bitcoin works **98%** of the time, based on 11 years' worth of data.

And yet, how many actually executed that buy-and-hold strategy with Bitcoin?

Sure. Lots of folks bought Bitcoin when it was surging in 2013 and 2017. That's why the price was soaring. More people were buying Bitcoin than selling it. But most of the folks turned around and sold Bitcoin in 2014 and 2018 when things started to go south...

That's just human nature. Most people look at near-term price action, get freaked out, have a visceral reaction, and then sell.

Most people don't have what it takes to fully execute the buy-and-hold strategy in a volatile asset like Bitcoin.

And yet, those who did **have turned into millionaires**.

What's their secret? How did they do it?

By forgetting ***near-term price action*** and ***focusing on the long-term fundamentals***.

Forget Price Action, Focus on Fundamentals

There are two ways to look at financial markets: **Price action** and **fundamentals**.

That's it. It doesn't matter what market you're looking at – stocks... bonds... cryptos – they're all the same. You can either look at those markets through a price-action lens, or a fundamental lens.

The difference is simple.

Through a price-action lens, you're chasing the hottest ticket and dumping the coldest one. You believe that the current momentum in assets – both upward and downward – is going to sustain itself, and therefore, you listen to what the market is saying. If a stock is soaring, you think it's great, and you're buying. If it's dumping, you think it's awful, and you're selling.

Through a fundamental lens, you ignore the price action. You understand that on a day-to-day, week-to-week, and even month-to-month basis, asset prices go up and down for any number of reasons – but over the long run, they only go up or down for one reason:

The underlying fundamentals. So, you back out all the noise, buy assets with good fundamentals, and sell assets with bad fundamentals.

Most folks look at markets through the first lens, because humans are wired for instant gratification and capital preservation. So as soon as price action turns negative, they sell – regardless of the fundamentals.

That's why most folks *aren't* great investors – and that's why most investors, even those who knew about Bitcoin years ago, didn't make a fortune in the crypto markets.

They looked at the crypto markets through a price-action lens, and therefore, sold when Bitcoin crashed in 2014 or 2018.

We're telling you to look at the crypto markets through a fundamental lens.

Forget what *this* altcoin is doing today, or *that* altcoin is going to do tomorrow. Focus on the fundamentals underlying them.

Understand each altcoin's underlying technology, architecture, and software. Familiarize yourself with the team of developers behind those projects. Learn about the space they're trying to disrupt. Understand the opportunity for the project to execute this disruption. Use the coin in whatever capacity you can.

And, after you've done all that homework, buy an altcoin because it has the potential to change the world... forget the near-term price action related to that coin... stay true to the buy-and-hold strategy... and check back in on the value of your investment in two to three years.

History says you have a very high chance of being up many multiples on that initial investment.

In other words, in order to succeed in the crypto markets, ***you have to ignore near-term price action***, as focusing in on near-term price action in a volatile asset class will almost assuredly FUD (fear, uncertainty, and doubt) people out of their investments.

But taking a longer-term approach – while still being strategic and tactical as necessary – will keep you in those positions, and give you the opportunity to score enormous returns.

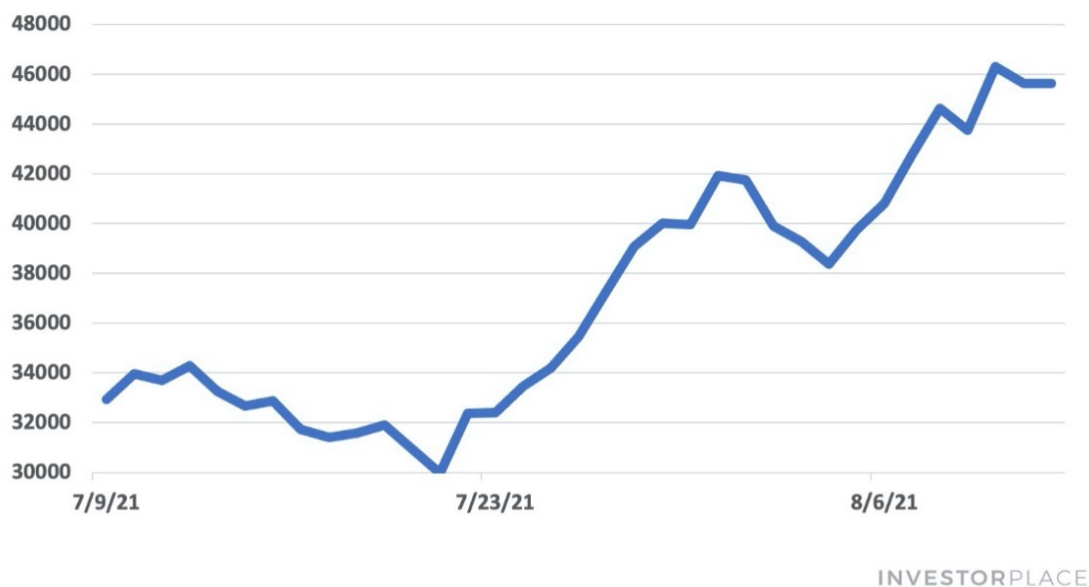
Right now, we are living through a real-world example of this...

Welcome to a New Bitcoin Breakout

Bitcoin – and the whole crypto market, for that matter – is breaking out right now.

Just a few weeks ago, Bitcoin prices were struggling to hold the \$29,000 level. Now, they're pushing the \$45,000 level.

Bitcoin Price (BTC)



It's a big **Bitcoin breakout** that a lot of investors didn't see coming because they were so worried about the near-term price action and whether Bitcoin would fail to hold the critical \$30,000 support level back in July.

So much for that...

Now we think Bitcoin is the early innings of another enormous breakout – and there's a few fundamental reasons why.

First, we believe the central catalyst for the recent breakout in Bitcoin – so-called “**Goldilocks**” inflation – will persist for the foreseeable future, providing upward pressure on Bitcoin prices.

Second, we believe the fact that the whole crypto market staged an enormous rally in the face of significant legal headwinds through the first two weeks of August speaks volumes about just how **bullish** sentiment in the crypto market is right now – and bodes well for future gains.

Third, we believe the breakout in decentralized finance (DeFi) and decentralization application (dApp) tokens – and rising awareness of their associated applications – sets the stage for certain altcoins to go parabolic over the next few quarters.

All in all, we're very bullish on cryptos today. And not because our portfolio is surging. Rather, because the fundamentals underlying our portfolio imply that this surge is far from over...

The Inflation Tailwind

One of the most interesting things in the crypto markets is the correlation between **inflation** and **Bitcoin**.

Theoretically, Bitcoin prices should rise as inflation expectations rise, because Bitcoin is a store of value that will protect against inflationary pressures – it is, after all, digital gold, and gold is seen as the global standard for inflation hedging.

As we can see in the chart below, this is true. The 10-year Treasury yield (the orange line) is widely seen as the real-time market proxy for inflation expectations. When that yield is rising – and inflation expectations are rising – Bitcoin prices (the blue line, which shows the crypto market's total valuation) tend to rise, too.

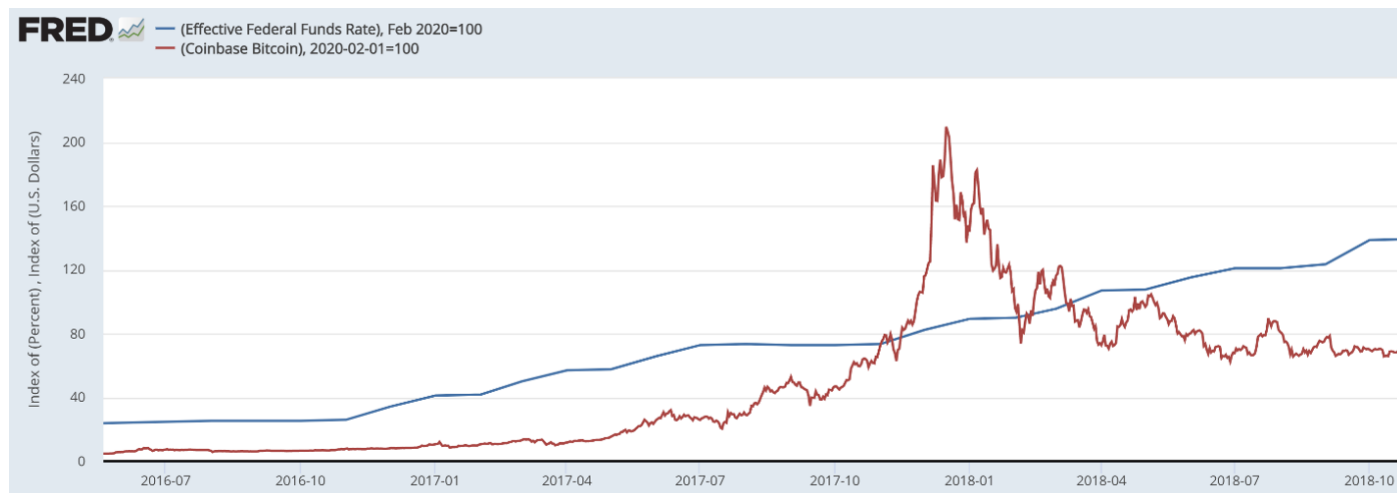


This makes sense. But in our opinion, rising inflation is good for Bitcoin... ***until it's not.***

That's because, at some point, inflation expectations will rise high enough to prompt Fed action, which will result in a series of rate hikes, the sum of which tend to reduce risk-appetite – and Bitcoin is considered one of the riskier assets.

Therefore, in the event where inflation becomes problematic enough to spark rapid Fed action, such action will have an adverse impact on Bitcoin, and an even more adverse impact on the altcoins in our portfolio because they are farther out on the risk curve than Bitcoin itself.

A good historical example of this is the 2017-2018 boom-and-bust cycle in Bitcoin. That boom got started in early 2017, amid a rate-hiking cycle from the Fed. But as the Fed kept hiking into early 2018, that reduced investors' risk appetites, and caused Bitcoin prices to collapse.



In other words, what Bitcoin – and altcoins, more specifically – need to keep pushing higher is “Goldilocks” inflation, or inflation that is not too hot, and not too cold.

We believe we are heading into this Goldilocks inflation environment right now.

That is, there’s a lot of money floating out there right now. The U.S. government printed trillions of dollars to help keep the economy alive during the Covid-19 pandemic, and they continue to print money today via infrastructure bills and the like. The money supply in this country is simply too high right now for there not to be some sort of inflation.

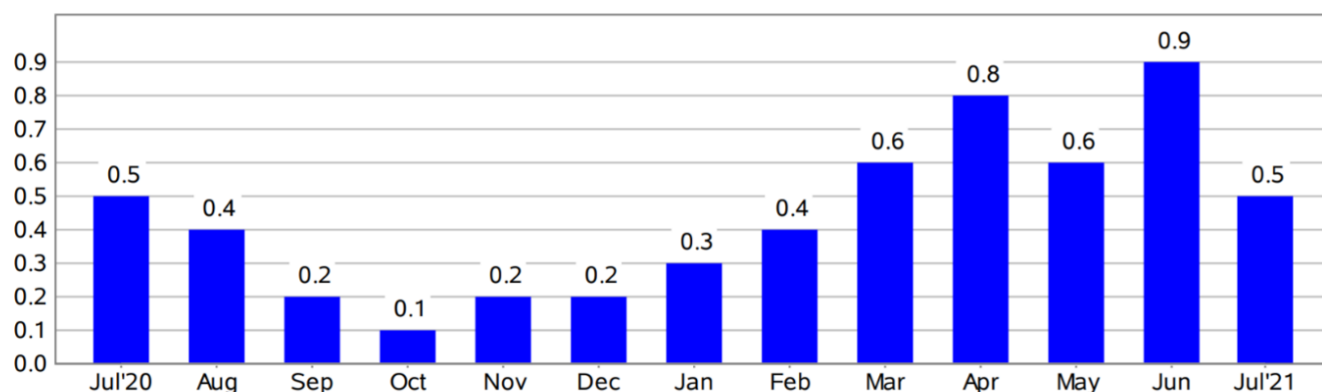
But we do not believe that there will be much inflation, at all, and certainly not enough inflation to get the Fed to start hiking rates anytime soon.

That’s because the big economic reopening has already come and gone. Consumer demand is now tapering off. All of the money households saved during the pandemic has been spent. Summer is winding down, and with it, this desire to go out and do a bunch of things is easing. Parents are returning to the office. Kids are returning to school. Stimulus payments are going to stop soon.

In other words, our belief is that the red-hot inflation we have seen over the past few months will ease in the coming months.

Indeed, that’s ***already happening***. Consumer prices in the U.S. economy rose at their slowest pace in over five months in July.

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, July 2020 - July 2021
Percent change



Over the next few months, inflation will cool off, but not altogether disappear. You'll get Goldilocks inflation.

And that's a great thing for Bitcoin and the crypto market – it will be the fuel for the current breakout to take another leg higher.

Sentiment is Exceptionally Bullish

Another thing we'd like to highlight as a bullish indicator for cryptos going forward is just how strong the underlying sentiment in the crypto market is today.

The legal backdrop for cryptos is presently *not the best*. In fact, through the first two weeks of August, one could very easily say that cryptos have been facing their biggest legal headwinds ever.

That's because legislation in Washington D.C. is aiming to essentially "kill" the crypto world in the United States.

Long story short, there is a proposal in the new infrastructure bill that would increase tax compliance by cryptocurrency market participants. Sounds fair enough. But that proposal includes crypto miners, and would require those miners to file a type of 1099 form for certain transactions that those miners do not have the capacity to file, because – by nature of the blockchain – they do not know who their users are...

Basically, D.C. is trying to shut down cryptos in a sneaky way by mandating very specific tax forms for miners that they physically cannot file.

Bad news, bears – but against that awful backdrop, Bitcoin soared more than 50%, and many altcoins shot up even more.

That's a very important insight about the recent Bitcoin breakout.

The bullish sentiment underlying the recent leg higher in cryptos is so strong that it is entirely offsetting what would otherwise be rally-breaking headwinds.

If these legal headwinds had hit two months ago, Bitcoin prices would've collapsed to \$20,000. But here we are, and those legal headwinds sparked a rally in Bitcoin to \$45,000.

Opposite day? Not quite. Instead, ***it's a sentiment shift.***

Two months ago, the folks buying Bitcoin were focused on near-term price action and news headlines, and therefore, were subject to be sellers on any negative news.

Today, though, the folks buying Bitcoin are focused on long-term fundamentals, and therefore, are not subject to be sellers on negative news.

They're "sticky" buyers – and sticky buyers form the foundation for multi-month breakouts.

DeFi and dApps are Having a "Moment"

Beyond the current Bitcoin breakout, we believe the stage is set for **DeFi** and **dApp** tokens to soar in value over the next few years.

Here's the story...

Back in May, when the price of Bitcoin began to rapidly descend from its all-time highs, the DeFi sector took a big hit as well, with the total value locked (TVL) in DeFi platforms dropping from over \$90 billion to below \$50 billion.

Essentially, not only did crypto prices sharply decline, but investors also pulled a huge amount of capital from the DeFi markets as well, due to fears that the crypto boom times were coming to an end.

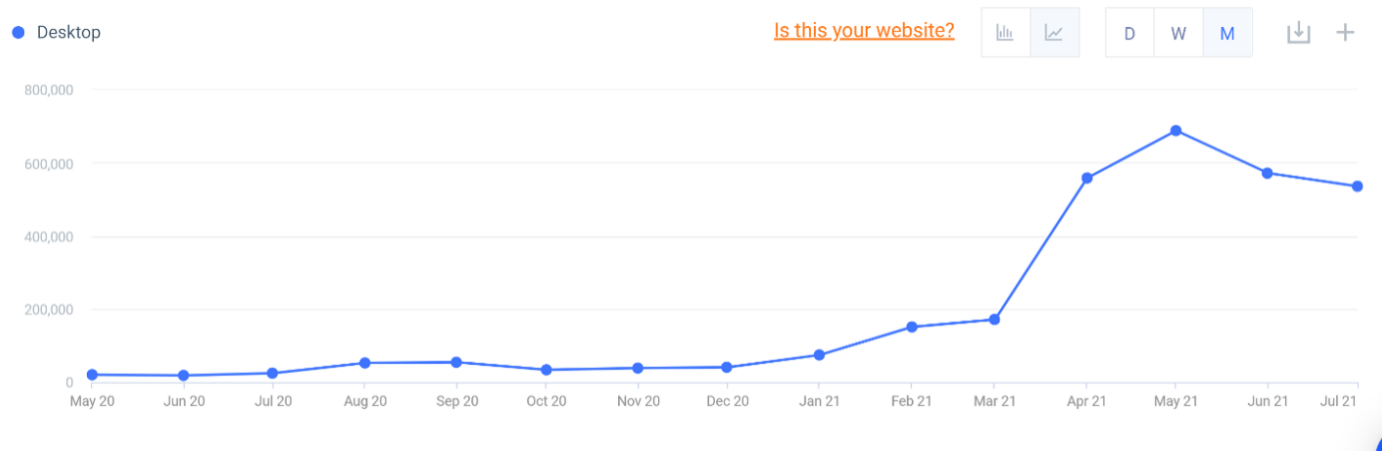
But the crypto boom times have returned, and with them, the DeFi sector has come roaring back to life.

The Bitcoin breakout has been impressive. Bitcoin prices are up more than 50% over the past month. But the “poster boy” token still has a long ways to go before it eclipses its previous highs near \$65,000.

On the other hand, ***DeFi has already recovered almost all of its losses***, with the TVL in DeFi platforms rising to over \$80 billion as of this writing. Based on the current trend, the TVL in DeFi platforms could easily hit all-time highs of over \$90 billion in the coming weeks. This trend has major positive implications for the altcoin markets, since many major altcoins are directly tied to DeFi platforms.

Meanwhile, on the dApp side of things, we're starting to see encouraging signs of not just token price appreciation, but more importantly, app usage. Our channel checks indicate increased search interest, web traffic, and app download volume for various apps we cover.

Example: **Helium (HNT)**. Look at the web traffic trends on Helium.com, per SimilarWeb. Clearly, more and more folks are hearing about Helium and visiting the company's website – which, of course, is a promising leading indicator of future adoption.



All in all, we're bullish not just on the general direction of the crypto markets, but on the increasing consumer awareness and adoption of DeFi and dApps – the likes of which we see as a strong reason to believe our altcoins will soar in value in the coming months and years.

Speaking of our altcoins, let's dive into a review of our current portfolio.

Portfolio Review

Monero (XMR) has been bullish this past month, rising more than 45% from \$180 in the middle of July to over \$260 currently. The project remains the king of the privacy cryptos, with a market cap near \$5 billion while its closest competitor, DASH, sits at only \$2 billion.

Monero's anonymity features are essentially uncrackable, and as long as the crypto space exists, a fully anonymous platform will always be in high demand. However, because of those anonymity features, essentially no regulated crypto exchanges in the world offers the coin, and therefore it continues to be somewhat difficult to buy and sell.

This difficulty to trade is likely the main reason why Monero isn't more valuable currently. The crypto is widely used and in high demand, but that demand is being tempered by regulations that make it very hard to find an exchange that offers it.

Still, Monero remains a strong crypto pick and will likely continue to steadily rise as long as the underlying market remains bullish. Long term, the project's unique anonymity capabilities make it an important holding in any crypto portfolio, as it has the potential to break out in a big way if more people start using it to anonymize their wealth. **Buy XMR up to \$430.** It can be purchased on the Voyager exchange.

Helium (HNT) is new for our portfolio and relatively new in general, as it was launched in August 2020 with a very specific focus. Essentially, the Helium network is a decentralized blockchain-based network that provides wireless network coverage, via users of the network installing a wireless network transmitter in their home or office. Basically, Helium is the blockchain equivalent of internet service providers like Xfinity.

The native token of Helium – HNT – has seen a massive rally since launching, climbing from just under \$1 to nearly \$20 in April and May, a gain of tens of thousands of percent.

The Helium market cooled off after that, with the price dropping to just under \$10 in the middle of July. However, the crypto is now hot again, with its price rising 60% to \$16 currently.

The big news is that Helium just raised \$11 million in a token sale led by private venture capital firm Andreessen Horowitz – which is a big deal, because this fund has a history of home run hits in the crypto market.

The coin soared on this news, and has since given back some of those gains, which is totally healthy. We expect some consolidation here, before the token takes another leg higher.

We are very bullish about where the Helium token can go in the long run. **HNT is above our limit, so hold here and buy only on dips below \$12.** You can buy the coin on Uniswap.

Polkadot (DOT) has outperformed most of the rest of the crypto market, with its price rising 110% from \$10 in the middle of July to over \$21 currently. That compares favorably to the return of Bitcoin, which has risen 50% during the same period of time.

The main hype around Polkadot continues to revolve around its Parachains, which are supposed to revolutionize blockchain technology. A co-founder of the crypto says that “Parachain Season” is just beginning, and that Parachains will revolutionize the crypto world just as much as DeFi.

Overall, Polkadot appears to have the potential to be a major force in the crypto world, which explains why it is rising faster than the rest of the market during the recent bull run. Of course, it remains to be seen if Polkadot’s Parachain potential will be actualized, but the potential is compelling. **DOT remains a good buy up to \$41.** You can buy it on Kraken or Bittrex.

Stellar Lumens’ (XLM) market has been quite bullish in recent weeks, with its price rising 50% from \$0.20 in the middle of July to just over \$0.30 currently. The altcoin is

essentially “riding the wave” and simply rising with the rest of the crypto market.

As the old saying goes... a rising tide lifts all boats.

Aside from that, Stellar is looking to add an automated market maker (AMM) to its blockchain, which will increase liquidity, and therefore would increase trading efficiency. We like this added feature, and see it as a potential catalyst for further token price appreciation. **Keep buying XLM up to \$0.65** on Coinbase.

The Graph (GRT) is often called the “Google of the Blockchain” because of its powerful indexing technology. Currently, the platform supports Ethereum, which is the second-biggest cryptocurrency in the world. It achieves this by learning how to index using subgraphs descriptions. These subgraph descriptions define the smart contracts of interest, the key events to focus on, and how to map these events.

Today, many Ethereum developers use The Graph to answer these queries. And, as of a few days ago, The Graph has also successfully integrated with the Polygon network. Continued partnerships with new blockchains and protocols indicate a bullish trend, and one we plan to ride for the long term.

The Graph’s price has also been bullish recently, climbing from \$0.48 in the middle of July to right around \$0.90 today. That puts the coin up over 150% year-to-date. **GRT remains a buy up to \$1.90.** It can be bought on Coinbase.

Uniswap (UNI) is another altcoin that is beating out most of the rest of the crypto market, with its price also rising more than 100% from \$14 in the middle of July to \$29 currently.

The main reason that Uniswap is hotter than most other cryptos is that it continues to be a central hub of the DeFi world, with countless new cryptos being launched on Uniswap every week. Further, DeFi has been rising faster than the rest of the crypto market in general over the past one to two years, and this trend is continuing during the recent bull run.

One bit of recent news here is that Uniswap V3 has launched into Alpha testing, with the focus of V3 being that it is integrated with the Optimistic Ethereum Mainnet, which is a scaling solution for the Ethereum network. If tests are successful, this will provide

more scalability for Uniswap, which is something that is desperately needed since transaction fees on the platform are currently outrageous due to a lack of scalability.

Overall, Uniswap continues to be one of the hottest altcoin picks, since it is consistently outperforming Bitcoin when it comes to market gains, and we expect this trend to persist. **Buy UNI below \$35.** You can purchase it on Coinbase.

Focused on the Big Picture

Blockchain technology is going to change the world.

The sooner you recognize that, the sooner you'll realize that investments in cryptocurrencies are not trades designed to make you an overnight millionaire – rather, they are investments in world-changing technology platforms that, if you hold onto them, will create generational wealth over time.

So, while we do believe the current technicals, optics, and sentiment in the crypto market are all exceptionally bullish and set the stage for the current cryptocurrency breakout to keep going, we want to emphasize that we are not too concerned about where our portfolio trends over the next month.

It may go higher. It may go lower.

Regardless of which way it goes, we are confident that we are invested in world-changing technologies that, collectively, will redefine multi-trillion-dollar economic systems over the next decade. As they do that, we are very confident that our tokens won't just rise 100% in value in a month – rather, they will soar many multiples over the next three-plus years.

Our advice, therefore, is simple: Forget near-term price action. Focus on the fundamentals. Stay strategic and tactical, but always take the 400-foot-view on cryptos as world-changing technology platforms.

That's the strategy that minted Bitcoin millionaires like Charlie in the 2010s. That same strategy will mint many, many more Bitcoin millionaires in the 2020s.

Our job is to help you be one of them.

Sincerely,

A stylized, handwritten signature in black ink, appearing to read 'Luke Lango'.

Luke Lango
Editor
Crypto Investor Network

A handwritten signature in black ink, clearly legible as 'Charlie Shrem'.

Charlie Shrem
Editor
Crypto Investor Network

